



Gary McGee & Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

Oregon Historical Society

Financial Statements and Other Information
as of and for the Year Ended December 31, 2016
and Report of Independent Accountants

OREGON HISTORICAL SOCIETY

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REPORT OF INDEPENDENT ACCOUNTANTS

*The Board of Trustees
Oregon Historical Society:*

We have audited the accompanying financial statements of the Oregon Historical Society, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oregon Historical Society as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Summarized Comparative Information

We have previously audited the Oregon Historical Society's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ernst & Young + Co. LLP

March 27, 2017

OREGON HISTORICAL SOCIETY

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

(WITH COMPARATIVE AMOUNTS FOR 2015)

	2016	2015
Assets:		
Cash and cash equivalents	\$ 2,054,106	2,047,528
Accounts receivable	21,964	31,296
Contributions and grants receivable (note 4)	526,033	141,379
Inventories and prepayments	364,922	240,848
Other assets	79,573	87,074
Investments (note 5)	8,249,496	7,664,956
Beneficial interest in assets held by the Oregon Community Foundation (note 6)	7,344,328	7,295,418
Beneficial interest in charitable trusts (note 7)	436,457	438,910
Restricted deposits and funded reserves (note 8)	50,056	50,041
Land, buildings, and equipment (note 9)	9,236,021	9,098,964
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Collections (note 11)		
Total assets	\$ 28,362,956	27,096,414
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Liabilities:		
Accounts payable and accrued expenses	646,487	426,901
Deferred revenue	107,293	130,368
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Total liabilities	753,780	557,269
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Net assets:		
Unrestricted:		
Available for operations	107,219	233,765
Board-designated reserves (note 13)	6,533,931	6,488,422
Cumulative endowment deficit (note 13)	(517,241)	(587,381)
Net investment in capital assets	9,236,021	9,098,964
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Total unrestricted	15,359,930	15,233,770
Temporarily restricted (note 13)	2,442,635	1,547,411
Permanently restricted (note 13)	9,806,611	9,757,964
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Total net assets	27,609,176	26,539,145
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Commitments and contingencies (notes 10, 12, and 18)		
Total liabilities and net assets	\$ 28,362,956	27,096,414

See accompanying notes to financial statements.

OREGON HISTORICAL SOCIETY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	2016			Total	2015
	Unrestricted	Temporarily restricted	Permanently restricted		
Public support:					
Contributions and grants	\$ 1,404,442	2,367,438	51,100	3,822,980	3,179,186
Memberships	219,834	—	—	219,834	238,943
Multnomah County levy (note 14)	2,406,186	—	—	2,406,186	1,992,239
Other governmental funding (note 15)	1,029,024	29,433	—	1,058,457	932,762
Total public support	5,059,486	2,396,871	51,100	7,507,457	6,343,130
Revenues and gains:					
Admissions	157,643	—	—	157,643	155,594
Product sales	229,736	—	—	229,736	228,347
Rental income	191,799	—	—	191,799	191,031
Investment return (note 5)	637,568	64,900	—	702,468	(251,347)
Net change in the beneficial interest in assets held by the Oregon Community Foundation (note 6)	374,412	58,897	—	433,309	(83,869)
Net change in the fair value of split-interest agreements	—	—	(2,453)	(2,453)	(18,469)
Net gain on the sale of collection items (note 11)	—	15,538	—	15,538	—
Gain on the sale of capital assets	4,000	—	—	4,000	—
Other	115,593	—	—	115,593	214,161
Total revenues and gains	1,710,751	139,335	(2,453)	1,847,633	435,448
Net assets released from restrictions (note 16)	1,640,982	(1,640,982)	—	—	—
Total revenues, gains, and other support	8,411,219	895,224	48,647	9,355,090	6,778,578
Expenses (note 17):					
Program services	6,248,255	—	—	6,248,255	5,454,226
Supporting services	2,036,804	—	—	2,036,804	1,679,836
Total expenses	8,285,059	—	—	8,285,059	7,134,062
Increase (decrease) in net assets	126,160	895,224	48,647	1,070,031	(355,484)
Net assets at beginning of year	15,233,770	1,547,411	9,757,964	26,539,145	26,894,629
Net assets at end of year	\$ 15,359,930	2,442,635	9,806,611	27,609,176	26,539,145

See accompanying notes to financial statements.

OREGON HISTORICAL SOCIETY

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	2016	2015
Cash flows from operating activities:		
Cash received from contributors, grantors, and members	\$ 6,581,283	6,440,032
Cash received from admissions and service recipients, and others	696,566	898,124
Distribution of investment return earned on assets held by the Oregon Community Foundation (<i>note 6</i>)	384,399	374,519
Investment income received	242,805	270,247
Cash paid to employees and suppliers	(7,371,088)	(6,214,104)
Cash paid for income taxes	-	(1,277,213)
Net cash provided by operating activities	533,965	491,605
Cash flows from investing activities:		
Purchase of capital assets	(841,434)	(743,881)
Proceeds received from the sale of capital assets	4,000	-
Purchase of investments	(9,431)	(380,140)
Proceeds from the sale of investments	78,531	121,020
Reinvestment of investment income	(193,977)	(266,956)
Deposits to restricted cash reserves	(15)	(41)
Net cash used in investing activities	(962,326)	(1,269,998)
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment and capital acquisition	434,939	1,100
Net cash provided by financing activities	434,939	1,100
Net increase (decrease) in cash and cash equivalents	6,578	(777,293)
Cash and cash equivalents at beginning of year	2,047,528	2,824,821
Cash and cash equivalents at end of year	\$ 2,054,106	2,047,528

See accompanying notes to financial statements.

OREGON HISTORICAL SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	2016				
		Program services			
	Research services	Exhibits	Education	Total	
Salaries and related costs	\$ 829,377	995,522	353,144	2,178,043	
Professional services	92,715	792,558	487,519	1,372,792	
Supplies	18,291	99,600	9,300	127,191	
Printing	13,501	22,393	43,355	79,249	
Telephone	-	407	-	407	
Computer and network	5,095	683	175	5,953	
Postage and shipping	5,348	15,004	12,433	32,785	
Rental of equipment	3,573	8,056	1,607	13,236	
Repair, maintenance, and utilities	-	673	-	673	
Rent	-	-	-	-	
Travel and transportation	22,089	42,308	43,501	107,898	
Training, subscriptions, and dues	1,162	674	575	2,411	
Advertising and promotion	49,076	98,152	49,235	196,463	
Production and purchase costs	-	88,956	319	89,275	
Collection acquisition costs (<i>note 11</i>)	7,157	810	-	7,967	
Insurance	109	217	109	435	
Interest	-	-	-	-	
Taxes	-	-	-	-	
Other	1,494	9,164	17,021	27,679	
Total expenses before depreciation and allocation of facility, security, communication, and other program support costs	1,048,987	2,175,177	1,018,293	4,242,457	
Depreciation	245,364	384,916	24,522	654,802	
Allocation of facility, security, communication, and other program support costs	511,782	761,284	77,930	1,350,996	
Total expenses	\$ 1,806,133	3,321,377	1,120,745	6,248,255	

See accompanying notes to financial statements.

Supporting services				
Admini- stration	Fund- raising	Total	Total	2015
1,196,701	476,741	1,673,442	3,851,485	3,394,579
362,778	59,147	421,925	1,794,717	1,359,004
66,889	9,969	76,858	204,049	158,605
9,805	33,472	43,277	122,526	106,011
25,700	–	25,700	26,107	26,546
129,412	–	129,412	135,365	110,798
72,652	14,480	87,132	119,917	48,975
20,553	8,666	29,219	42,455	43,707
437,457	–	437,457	438,130	420,005
124,844	–	124,844	124,844	125,149
10,651	83,492	94,143	202,041	166,270
17,924	3,013	20,937	23,348	20,674
3,789	771	4,560	201,023	249,589
–	–	–	89,275	95,352
–	–	–	7,967	16,591
66,703	–	66,703	67,138	57,209
12,460	–	12,460	12,460	–
–	–	–	–	12,121
74,975	15,181	90,156	117,835	101,060
2,633,293	704,932	3,338,225	7,580,682	6,512,245
26,209	23,366	49,575	704,377	621,817
(1,446,985)	95,989	(1,350,996)	–	–
1,212,517	824,287	2,036,804	8,285,059	7,134,062

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

1. Organization

The Oregon Historical Society has been collecting, preserving, exhibiting, and publishing Oregon's history for over 100 years. The Society's mission is to preserve our state's history and make it accessible to everyone in ways that advance knowledge and inspire curiosity about all the people, places, and events that have shaped Oregon. To achieve this mission, the organization fulfills a vast array of services for the state. One of the primary functions is protecting and archiving historical Oregon treasures. Oregonians can experience these artifacts through web sites, such as TimeWeb and The Oregon History Project, by visiting the Society's Research Library, through educational programs that include classroom tours, and through the exhibitions at the Oregon Historical Society Museum.

Today, the Society's complex is a landmark in the heart of Portland's Cultural District, and offers Oregon's rich multicultural history through museum exhibitions, research collections, publications, and public programs. The Park Blocks facility also serves as the Society's headquarters, housing the history museum's multiple galleries, the research library, and the Society's administrative offices.

The Society also owns and operates a 100,000 square-foot collections support facility in east Multnomah County, where the bulk of its collections are processed and managed for exhibition and research use, one of the best such facilities in the United States.

The Society currently enjoys a membership of approximately 4,218 members.

2. Program Services

During the year ended December 31, 2016, the Society incurred program service expenses in the following major categories:

Research Services – The Oregon Historical Society Davies Family Research Library is one of the largest historical libraries in the country and maintains an unparalleled collection relating to the history of Oregon and the Pacific Northwest. Its holdings include thousands of books, government documents, and serials; maps; manuscript collections; oral history interviews and other sound recordings; as well as millions of photographs; millions of feet of archival film footage; and a growing collection of digitized and born-digital images, documents, sound, and video.

These collections broaden and enrich the understanding and interpretation of the cultural, political, religious, social, economic, scientific, and technological life in Oregon. In 2016, the Research Library staff received 2,803 in-person research visits and fielded 2,757 remote reference inquiries via mail, phone, and e-mail from all over the world. The reading room is open 32 hours per week.

The Research Library online catalog is the primary point of discovery for researchers seeking to use its holdings. Archival collections are also described in more detail in ArchivesWest, an online consortial resource for academic and research libraries in the Pacific Northwest and some Mountain states. A new web site for accessing digital collections is under development. A robust suite of Digital History web sites, including the Oregon History Project, the Oregon Encyclopedia, and the Oregon Wayfinder, provide primary sources and authoritative content that support education and research, with broad appeal to a general audience. The Research Library provides research support to all Society programs and departments and collaborates widely with community partners from around the state.

The Society publishes the OREGON HISTORICAL QUARTERLY, which has been a benefit of membership since 1900. The QUARTERLY is a peer-reviewed, public history journal that brings documented history about Oregon and the Pacific Northwest to both scholars and the general audience. The QUARTERLY is supported by an advisory committee comprised of scholars, public historians, and educators from throughout the state.

Exhibits – The Society collects, preserves, documents, and exhibits the state’s material culture with more than 85,000 artifacts. Its major permanent exhibition, *Oregon My Oregon*, has won two national awards – an Award of Merit from the American Association for State and Local History, and a MUSE award from the American Association of Museums Media and Technology Committee.

In 2012, a new American Association of State and Local History award winning permanent exhibition, *Oregon Voices*, was completed, combining the technology of today with stories from the past. This interactive exhibit gives visitors a chance to explore the issues and events that shaped Oregon from 1950 forward.

The Society mounts eight to ten travelling and temporary exhibitions on varied themes each year. The on-site exhibits are shown in its seven galleries. The Society also loans objects to more than 30 historical institutions on a yearly basis. In 2016, 75,322 visitors came to the Oregon Historical Society to view its exhibits and participate in various programs.

Education – The education department at Oregon Historical Society provides tours, traveling trunks, curriculum, and interactive exhibits for visitors of all ages, with a focus on grades K-20. OHS offers 11 travelling trunks on urban, rural, and multicultural topics, each filled with objects and images for hands-on and experiential learning, traveling throughout the State of Oregon to grades K-20 classrooms and a range of organizations, including senior home facilities. The trunks and exhibits are accompanied by curriculum for classroom teachers and students.

The education department also manages the Oregon History Day program, which is a part of the renowned, award-winning National History Day program. Approximately two dozen teachers and about a 1,000 students from all regions of the state participate in Oregon History Day by conducting historical research and creating an exhibit, web site, documentary, performance or paper. In 2016, approximately 200 students presented their history day project to teams of three judges, representing local teachers, archivists, librarians, historians, and museum professionals. Approximately 50 students will get to represent the State of Oregon by participating in the national contest, which is held every June near Washington D.C.

The education department developed its first permanent exhibit for youth, called the History Hub, which opened November 1, 2016. The History Hub was a 1.5-year project and involved a 24-member Advisory Committee and three partner institutions: Portland Public Schools Indian Education Program, Southern Oregon Historical Society, and Oregon Black Pioneers. History Hub summative evaluations prove that the exhibit is highly interactive and engaging, as well as culturally and socially relevant for its youth audience, especially students in grades 4-8 and their teachers and families. The Education program served 7,686 students in 2016, which includes 312 college tours and 99 adults in docent-led tours. The traveling trunk program also served 3,691 students throughout Oregon.

Affiliates – The Society works closely with more than 130 affiliate societies and historical museums located throughout the state to provide information and technical support in historical agency management activities, and works with and supports the Oregon Century Farm & Ranch Program, the Oregon Geographic Names Board, the Oregon Cultural Trust, and the Oregon Heritage Commission.

3. Summary of Significant Accounting Policies

The significant accounting policies followed by the Oregon Historical Society are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

Basis of Presentation – The Society has adopted the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) No. 958-605, *Revenue Recognition*, and FASB ASC No. 958-205, *Presentation of Financial Statements*. Under these provisions, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Society and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of the Society and/or the passage of time. These balances represent the unexpended portion of externally restricted contributions and investment return to be used for specific programs and activities, such as exhibitions, education programs, or research, as directed by the donor.

- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Society. Generally, the donors of these assets permit the Society to use all or part of the income earned on related investments for general or specific purposes.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, such differences, if any, would not be significant.

Contributions – Contributions, which include unconditional promises to give (i.e., pledges), are recognized as revenue in the period the promise was received by the Society. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Management estimates an allowance for uncollectible contributions receivable based on past collection history.

Contributions of capital assets without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire capital assets with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

In-Kind Contributions – The Society receives contributed services from a large number of volunteers who participate in a range of activities. In accordance with FASB ASC No. 958-605, *Revenue Recognition*, the values of such services, which the organization considers not practicable to estimate, have not been recognized in the statement of activities. Significant services received which create or enhance a non-financial asset or require specialized skills that the organization would have purchased if not donated are recognized in the statement of activities. During the year ended December 31, 2016, the Society recorded \$50,703 in contributed advertising services, \$30,949 in contributed design services, and \$6,307 in contributed printing services.

In-kind contributions of equipment and other capital assets and materials, as well as the free use of facilities, are recorded where there is an objective basis upon which to value these contributions and where the contributions are an integral part of the organization's activities. During the year ended December 31, 2016, the Society recorded \$23,985 in contributed materials and supplies and \$2,138 in the free use of facilities.

Cash Equivalents – For purposes of the financial statements, the Society considers all liquid investments having initial maturities of three months or less to be cash. Cash and cash equivalents held as part of the Society's investment portfolio, and where management's intention is to use the cash to acquire investments to be held long-term, are classified as investments.

Investments – All investments are carried at fair value. The net change in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (decline) of those investments, is reported in the statement of activities. Investment income is accrued as earned, and reported net of investment advisory fees. Security transactions are recorded on a trade date basis.

The Society has some exposure to investment risks, including interest rate, market and credit risks, for marketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the accompanying financial statements.

Beneficial Interest in Assets Held by the Oregon Community Foundation – In accordance with FASB ASC No. 958-605, *Revenue Recognition*, the Society accounts for its interest in these funds at fair value using the equity method of accounting, which approximates the present value of the expected future cash flows that will inure to the Society.

Inventories – Inventories, which consist primarily of inventories held for sale by the Society's gift shop, are carried at the lower of cost or market value. Cost is determined using the average cost method.

Capital Assets and Depreciation – Land, buildings, and equipment are carried at cost, and at fair value when acquired by gift. Depreciation is generally provided on a straight-line basis over the estimated useful lives of the respective assets, which is 31 years for buildings and related improvements and 3 to 7 years for furniture and equipment.

Revenue Recognition – All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Service revenues are recognized at the time services are provided and the revenues are earned. Bequests are recorded as revenue at the time the Society has an established right to the bequest and

the proceeds are measurable. Membership payments received from Society members are considered equivalent to unrestricted contributions and are recognized as revenue when received. Appropriations and other governmental funding is recognized as revenue when received.

Outstanding Legacies – The Society is the beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently determinable. The Society’s share of such bequests is recorded when the probate courts declare the testamentary instrument valid and the proceeds are measurable.

Beneficial Interest in Charitable Trusts – The Society receives contributions of property in which the donor or donor-designated beneficiary may retain a life interest. The assets are invested and administered by either a trustee or the Society, and distributions are made to the beneficiaries during the term of the agreement. These funds are generally invested in mutual funds, and the Society records its interest in these trusts at fair value based on estimated future cash receipts. Initial recognition and subsequent adjustments to the assets’ carrying values are reported as a change in the value of split-interest agreements in the accompanying financial statements, and are classified as permanently restricted, temporarily restricted, or unrestricted depending on the existence of donor-imposed purpose or time restrictions, if any.

Advertising and Promotional Expenses – Advertising and promotional costs are charged to expense as they are incurred. Advertising expenses totaled \$201,023 for the year ended December 31, 2016.

Endowment Funds and Interpretation of Relevant Law – Effective January 1, 2008, the State of Oregon adopted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), which governs Oregon charitable institutions with respect to the management, investment, and expenditure of donor-restricted endowment funds.

The Board of Trustees has interpreted Oregon’s adoption of UPMIFA as requiring the Society to adopt investment and spending policies that preserve the fair value of the original gift as of the date of gift, absent explicit donor stipulations to the contrary. Although the Society has a long-term fiduciary duty to the donor (and to others) for a fund of perpetual duration, the preservation of the endowment’s purchasing power is only one of several factors that are considered in managing and investing these funds. Furthermore, in accordance with UPMIFA, a portion of the endowment’s original gift may be appropriated for expenditure in support of the restricted purposes of the endowment if this is consistent with a spending policy that otherwise satisfies the requisite standard of prudence under UPMIFA.

As a result of this interpretation, the Society classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) subsequent gifts to the endowment, and (3) accumulations made pursuant to the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Net earnings (realized and unrealized) on the investment of endowment assets are classified as temporarily restricted until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by UPMIFA and until expended in a manner consistent with the purpose or time restrictions, if any, imposed by the donor. Any investment return classified as permanently restricted represents only those amounts required to be retained permanently as a result of explicit donor stipulations.

With regard to endowment losses or appropriations in excess of the fair value of the original gift, in accordance with FASB ASC No. 958-320, *Investments – Debt and Equity Securities*, the portion of a donor restricted endowment that is classified as permanently restricted is not reduced by losses on the investments of the fund, except to the extent required by the donor, including losses

related to specific investments that the donor requires the Society to hold in perpetuity. Similarly, the amount of permanently restricted net assets is not reduced by the Society's appropriations from the fund. In the absence of donor stipulations or law to the contrary, losses or appropriations of a donor-restricted endowment reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been satisfied before the loss or appropriation occurs. Any remaining loss or appropriation reduces unrestricted net assets.

In accordance with UPMIFA, the Board of Trustees has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs and operations supported by its endowment, while also seeking to maintain the long-term purchasing power of the endowment assets. Therefore the Board of Trustees considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Society and the fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Society; and
- The investment policies of the Society.

To meet that objective, the Society's policies limit the spending of investment income and appreciation to a maximum of 5.0% of the average fair value of such investments measured over a thirteen-quarter trailing average.

During the year ended December 31, 2016, the Society's Board appropriated \$463,030 for expenditure in accordance with this policy. See note 13.

Concentrations of Credit Risk – The Society's financial instruments consist primarily of cash equivalents, mutual funds, other exchange-traded products, and funds held at the Oregon Community Foundation ("OCF"), which may subject the organization to concentrations of credit risk as, from time to time, for example, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. In addition, the market value of securities is dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values. Management believes that risk with respect to these balances is minimal, due to the high credit quality of the institutions used.

Certain receivables may also subject the Society to concentrations of credit risk. To minimize its exposure to significant losses from customer or donor insolvencies, the Society's management evaluates the financial condition of its customers and donors, and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics. When necessary, receivables are reported net of an allowance for uncollectible accounts.

Finally, the Society's beneficial interest in assets held by OCF is dependent upon changes in the market value of the underlying investments and the ability of OCF to honor its commitment.

Recent Accounting Pronouncements – In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning

of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Society is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

Subsequent Events – As required by FASB ASC No. 855, *Subsequent Events*, subsequent events have been evaluated by management through March 27, 2017, which is the date the financial statements were available to be issued.

Conflict-of-Interest Policies – Included among the Society’s Board members, committee members, and executives are volunteers from the community who provide valuable assistance to the Society in the development of policies and programs, and in the evaluation and oversight of services. The Society has established a conflict-of-interest policy whereby Board and committee members, as well as all Society employees, must advise the Board of Trustees of any direct or indirect interest in any transaction or relationship with the Society, and do not participate in discussions and decisions regarding any action affecting their individual, professional, or business interests.

Income Taxes – The Society is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC”) and comparable state law. In addition, the Society has been recognized as a public charity under IRC Sections 170(b)(1)(A)(vi) and 509(a)(1).

Summarized Financial Information for 2015 – The accompanying financial information as of and for the year ended December 31, 2015 is presented for comparative purposes only and is not intended to represent a complete financial statement presentation.

Other Significant Accounting Policies – Other significant accounting policies are set forth in the financial statements and the following notes.

4. Contributions and Grants Receivable

Contributions and grants receivable are summarized as follows at December 31, 2016:

<i>Unconditional promises expected to be collected in:</i>	
Less than one year	\$ 401,600
One year to five years	124,433
	\$ 526,033

Included in the gross contributions receivable at December 31, 2016 are \$25,252 in endowment pledges.

5. Investments

The following is a summary of investments held at December 31, 2016:

<i>Mutual funds:</i>	
Intermediate-term bond	\$ 2,200,024
Mid-cap value	1,234,074
Emerging Markets	487,134
Nontraditional bond	388,693
Foreign large-cap blend	376,453
<i>Exchange-traded products:</i>	
Large-cap growth	1,587,766
Small-cap blend	555,856
Small-cap growth	501,750
Large-cap value	420,000
Foreign large-cap blend	240,850
Pacific/Asia	195,618
Total investments	8,188,218
Cash equivalents	61,278
	\$ 8,249,496

Investments are held for the following purposes:

Donor-restricted endowment funds	\$ 1,500,148
Board-designated reserves	6,404,301
Other donor-restricted funds	345,047
	\$ 8,249,496

Investment return for the year ended December 31, 2016 is summarized as follows:

Interest and dividends	\$ 242,805
Net increase in the fair value of investments	459,663
	\$ 702,468

6. Beneficial Interest in Assets Held by the Oregon Community Foundation

The Society has established the Oregon Historical Society Endowment Fund at the Oregon Community Foundation, which holds and invests it as a component fund for the benefit of the Society. The Society has granted OCF variance power over these funds. In accordance with FASB ASC No. 958-605, the Society accounts for its interest in these funds using the equity method of accounting, and carries the beneficial interest in the accompanying financial statements based on an estimate of the present value of the expected future cash flows that will inure to the Society. The assets in the funds are permanently restricted for endowment.

Changes in the Society's beneficial interest in these funds for the year ended December 31, 2016 are summarized as follows:

Balance at beginning of year	\$ 7,295,418
Plus increase in the fair market value of the fund	433,309
Less the distribution of investment return to the Society ¹	(384,399)
	\$ 7,344,328

¹ Under the terms of its agreement with the Society, the funds are invested at the discretion of OCF's Board of Directors and are held in a mixture of asset classes designed to maximize return while minimizing risk. The Society generally receives periodic distributions of the net investment return earned on these assets (generally 5.0% of the average fair market value of the funds using a trailing 13-quarter average). Additional distributions can be made at any time by the affirmative vote of a majority of the Society's Board of Trustees and the approval of OCF. During the year ended December 31, 2016, the Society received \$384,399 in distributions.

7. Beneficial Interest in Charitable Trusts

At December 31, 2016, the Society is the beneficiary of two charitable trusts, as follows:

Contributions receivable from charitable remainder trust ¹	\$ 257,684
Interest in perpetual trust ²	178,773
	\$ 436,457

¹ The Society is the partial beneficiary of a charitable remainder trust established by the will of a donor. Upon the death of the income beneficiary, the Society will receive a portion of the remaining assets of the trust. Total trust assets at December 31, 2016 are valued at \$1,027,267. A contribution receivable of \$257,684 is recorded at December 31, 2016, representing the actuarially-determined present value of the estimated future cash flows that will inure to the Society, using a discount rate of 4.0%. The trust has been restricted by the donor to be added to the existing endowment fund.

² The Mason Charitable Trust is a perpetual trust established by David T. Mason and Loa H. Howard Mason. The Society will receive in perpetuity a percentage of the income generated annually by the trust, subject to the discretion of the trustee, but not less than 20% and not exceeding 40%. Trust assets at December 31, 2016 are valued at \$893,865. An interest in perpetual trust of \$178,773 is recorded at December 31, 2016, representing the present value of the estimated future cash flows that will inure to the Society, presuming a payout percentage of 20%. During the year ended December 31, 2016, the Society received a distribution of \$11,700 from this trust. This distribution has been included among investment income in the statement of activities.

8. Restricted Deposits and Funded Reserves

Under an agreement with the Sovereign Building owner, the Society is required to maintain a capital improvement reserve fund in an amount not less than the anticipated annual shared repair and maintenance costs of the integrated facilities of the Sovereign Building and the Society's building. At December 31, 2016, the Society held \$50,056 in a separate reserve account.

9. Land, Buildings, and Equipment

A summary of the Society's capital assets at December 31, 2016 is as follows:

Land	\$ 1,242,203
Buildings and related improvements	16,776,647
Furniture and equipment	2,561,979
	<hr/>
	20,580,829
Less accumulated depreciation	(11,344,808)
	<hr/>
	\$ 9,236,021

10. Line of Credit

At December 31, 2016, the Society maintained an unsecured line of credit in the amount of \$500,000, bearing interest at the prime rate (currently 3.75%). No balance was outstanding at December 31, 2016.

11. Collections and Exhibition Costs

Each year, the Society receives the donation of a number of valuable research collections. As a result, the Society's collections contain thousands of rare books, pamphlets, manuscripts, maps, and photographs, which are held for public exhibition, education, or research in furtherance of public services and the Society's overall mission. Consistent with the policy followed by many museums and historical societies, and as permitted under FASB ASC No. 958-605, *Revenue Recognition*, contributions of historical treasures, artifacts, and similar assets held as part of the Society's collections are not recognized or capitalized in the financial statements. Such items that have been acquired through purchase have similarly not been capitalized. For the year ended December 31, 2016, costs associated with the acquisition of collection items totaled \$7,967.

In addition, pursuant to the Society's policy, proceeds from the sale of collection items and related insurance settlements are recorded as temporarily restricted net assets for the acquisition or care of the collection. During the year ended December 31, 2016, the Society recognized \$15,538 in gains associated with the sale of collection items.

Expenditures for exhibits and exhibition programs are not capitalized, nor are the costs associated with exhibitions and programs that will not open to the public until a future period.

12. Retirement Plan and Deferred Compensation Arrangements

The Society provides substantially all full-time, and certain part-time, employees with a retirement plan, as described under section 401(k) of the Internal Revenue Code. Under the plan, all employees may make voluntary contributions to the plan on a pre-tax basis up to the limits allowed by law. The Society matches 100% of each eligible employee's contribution up to 6.5% of their total annual compensation. Only employees who have completed at least six consecutive months of work at the Society are eligible to participate in the employer matching part of the plan. Contributions to the plan from both employees and the Society vest as accrued. During the year ended December 31, 2016, the Society contributed \$158,127 to this plan.

In addition, the Society has entered into a deferred compensation agreement with a retired executive. Under the agreement, the annual benefit has been determined by a formula that includes years of service, final average salary, and offsets for Society-funded portions of Social Security and employee contributions to the tax-sheltered annuity. The benefits are to be paid over the life of the executive or the person's surviving spouse. During the year ended December 31, 2016, the Society made payments under this agreement totaling \$5,216.

13. Restrictions and Limitations on Net Asset Balances

The following provides information about restrictions and limitations ascribed to the Society's net assets at December 31, 2016:

Board-Designated Reserves

As of December 31, 2016, the Board of Trustees had designated \$6,533,931 as a reserve fund.

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2016 represent 2,442,635 contributions, grants, and other unexpended revenues and gains available for the following:

<i>Contributions and grants restricted for the benefit of:</i>	
Museum/collections	\$ 1,348,379
Library renovation	409,091
Library	356,809
Education	168,384
Biography Project	38,000
Publications	7,126
Other programs	35,073
Future periods	37,209
	<hr/>
	2,400,071
	<hr/>
<i>Unappropriated endowment return restricted to:</i>	
Museum/collections	15,399
Library	12,351
Education	9,913
Publications	4,901
	<hr/>
	42,564
	<hr/>
	\$ 2,442,635
	<hr/>

Permanently Restricted Net Assets

At December 31, 2016, the Society held \$9,370,154 in donor-restricted endowment funds, and \$436,457 representing the Society's beneficial interest in charitable trusts. The investment return generated each year associated with these permanently restricted net assets is either unrestricted or restricted by donors for the following purposes:

<i>Investment return restricted for:</i>	
Education	\$ 1,074,371
Museum/collections	350,000
Library	527,646
Publications	111,700
Maritime history	55,600
Oral history	50,000
Unrestricted	7,200,837
	<hr/>
	9,370,154
	<hr/>
Beneficial interest in trusts (benefiting the Society's general operations) (note 7)	436,457
	<hr/>
	\$ 9,806,611
	<hr/>

Cumulative Endowment Deficit

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. As of December 31, 2016, the Society had incurred a cumulative endowment deficit totaling \$517,241 in excess of unappropriated accumulated endowment earnings. Accordingly, in order to report the cumulative endowment deficit as required by FASB ASC No. 958-320, *Investments*, the excess appropriations, in this case, have been classified as transactions of the unrestricted net asset class and will be reinstated out of future endowment earnings.

Continued

Endowment Summary

The following summarizes the Society's donor-restricted, endowment-related activities for the year ended December 31, 2016:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at beginning of year	\$ (587,381)	36,811	9,319,054	8,768,484
Contributions	–	–	51,100	51,100
Net change in beneficial interest in assets held by the Oregon Community Foundation	374,412	58,897	–	433,309
Investment return	40,714	64,900	–	105,614
Appropriation of endowment assets for expenditure	(344,986)	(118,044)	–	(463,030)
Endowment net assets at end of year	\$ (517,241)	42,564	9,370,154	8,895,477

14. Multnomah County Levy

With the passage of Measure 26-174 in November of 2016, Multnomah County voters agreed to a five-year extension of a levy, originally approved in November of 2010. The renewed levy is projected to generate gross revenues of between \$2.54 and \$3.1 million annually. The levy's purpose is to revitalize certain Society services on behalf of County residents and others. In return, the Society has agreed keep the library open to the public 32 hours per week, keep the museum open 47 hours a week, provide free admission to all school groups and residents of Multnomah County, and provide other services and programs. During the year ended December 31, 2016, the Society received \$2,561,186 of levy funding, of which \$155,000 was passed through to four other east county historical societies.

15. Other Governmental Funding

The following table summarizes other governmental support received for operating purposes during the year ended December 31, 2016:

State appropriation from the Oregon Economic Development Department	\$ 546,428
Proceeds from sales of Pacific Wonderland license plates ¹	482,596
Grants from:	
State of Oregon Library support and Development Services	23,363
Oregon Parks and Recreation	6,070
	<hr/> \$ 1,058,457 <hr/>

¹ According to legislation adopted by the Oregon legislature, proceeds from the sales of Pacific Wonderland license plates are divided evenly between the Oregon Historical Society and the Oregon State Capitol Foundation. The Society uses the funds to support the research library, educational programs for students and the general public, production of THE OREGON HISTORICAL QUARTERLY, and support of permanent and rotating museum exhibits.

16. Net Assets Released from Restrictions

During the year ended December 31, 2016, \$1,640,982 in net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of events specified by the donors, as follows:

<i>Satisfaction of restrictions:</i>	
For operating purposes	\$ 1,433,048
To fund capital acquisitions	207,934
	<hr/>
	\$ 1,640,982

17. Expenses

The costs of providing the various programs and other activities of the Society have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Costs by their natural classification are presented in the statement of functional expenses.

18. Operating Lease

The Society leases certain administrative and museum space under operating leases that expires in May of 2024. Future minimum payments under this agreement for the years subsequent to December 31, 2016 are summarized as follows:

<i>Years ending May 31,</i>	
2017	\$ 124,844
2018	124,844
2019	124,844
2020	124,844
2021	124,844
Thereafter	301,905
	<hr/>
	\$ 926,125

Rent expense for the year ended December 31, 2016 totaled \$124,844.

19. Fair Value Measurements

Included in the accompanying financial statements are certain financial instruments carried at fair value. The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality.

The Society's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FASB ASC No. 820, *Fair Value Measurements and Disclosures*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities and the lowest ranking to fair values determined using methodologies and models with unobservable inputs, as follows:

- *Level 1* – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.
- *Level 3* – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Society's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Continued

At December 31, 2016, the following financial assets are measured at fair value on a recurring basis:

	Level 1	Level 3	Total
Investments (note 5)	\$ 8,188,218	–	8,188,218
Beneficial interest in assets held by the Oregon Community Foundation (note 6)	–	7,344,328	7,344,328
Contributions receivable from charitable remainder trusts (note 7)	–	257,684	257,684
Interest in perpetual trust (note 7)	–	178,773	178,773
	\$ 8,188,218	7,780,785	15,969,003

The changes in valuation of Level 3 assets using significant unobservable inputs are as follows:

	Contributions receivable from charitable remainder trusts	Interest in perpetual trust	Beneficial interest in assets held by the Oregon Community Foundation	Total
Fair value at beginning of year	\$ 259,566	179,344	7,295,418	7,734,328
Decrease in the carrying value of contributions receivable from charitable remainder trusts	(1,882)	–	–	(1,882)
Net change in the value of a perpetual trust	–	(571)	–	(571)
Distribution of investment return	–	–	(384,399)	(384,399)
Net change in the beneficial interest in assets held by the Oregon Community Foundation	–	–	433,309	433,309
Fair value at end of year	\$ 257,684	178,773	7,344,328	7,780,785
	[A]	[B]	[C]	

[A] Measured at fair value based upon a discounted cash flow analysis of the expected income, taking the fair value of the assets held in trust and the life expectancy of the current beneficiaries into consideration (see note 7).

[B] Measured at fair value based upon a discounted cash flow analysis of the expected income, taking the fair value of the assets held in trust into consideration (see note 7).

[C] Measured at fair value based upon a discounted cash flow analysis of the expected income, which is equivalent to the fair value of the underlying assets held by the Oregon Community Foundation. Management's estimate of fair value is based solely upon information provided by the Oregon Community Foundation (see note 6).

20. Statement of Cash Flows Reconciliation

The following presents a reconciliation of the increase in net assets (as reported on the statement of activities) to net cash provided by operating activities (as reported on the statement of cash flows):

Increase in net assets	\$ 1,070,031
<hr/>	
<i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i>	
Depreciation	704,377
Proceeds from contributions restricted for long-term investment	(434,939)
Net increase in the fair value of investments	(459,663)
Cash distribution received from the Oregon Community Foundation for operational purposes	384,399
Net change in beneficial interest in assets held by the Oregon Community Foundation	(433,309)
Net change in the value of split-interest agreements	2,453
Gain on sale of capital assets	(4,000)
<i>Net changes in:</i>	
Accounts receivable	9,332
Contributions and grants receivable	(384,654)
Inventories and prepayments	(124,074)
Other assets	7,501
Accounts payable and accrued expenses	219,586
Deferred revenue	(23,075)
<hr/>	
Total adjustments	(536,066)
<hr/>	
Net cash provided by operating activities	\$ 533,965
<hr/>	

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OREGON HISTORICAL SOCIETY

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OREGON HISTORICAL SOCIETY

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